

104<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

# H. R. 328

To amend the Internal Revenue Code of 1986 to allow a deduction for contributions to individual investment accounts, and for other purposes.

---

## IN THE HOUSE OF REPRESENTATIVES

JANUARY 4, 1995

Mr. MCCRERY introduced the following bill; which was referred to the Committee on Ways and Means

---

## A BILL

To amend the Internal Revenue Code of 1986 to allow a deduction for contributions to individual investment accounts, and for other purposes.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “Individual Investment  
5       Account Act of 1993”.

6       **SEC. 2. ESTABLISHMENT OF INDIVIDUAL INVESTMENT AC-**  
7       **COUNTS.**

8       (a) IN GENERAL.—Part VII of subchapter B of chap-  
9       ter 1 of the Internal Revenue Code of 1986 (relating to  
10       additional itemized deductions for individuals) is amended

1 by redesignating section 220 as section 221 and by insert-  
2 ing after section 219 the following new section:

3 **“SEC. 220. INDIVIDUAL INVESTMENT ACCOUNTS.**

4       “(a) DEDUCTION ALLOWED.—In the case of an indi-  
5 vidual, there shall be allowed as a deduction an amount  
6 equal to the aggregate amount paid in cash for the taxable  
7 year by such individual to an individual investment ac-  
8 count established for the benefit of such individual.

9       “(b) DEFINITIONS AND SPECIAL RULES.—For pur-  
10 poses of this section—

11           “(1) INDIVIDUAL INVESTMENT ACCOUNT.—The  
12 term ‘individual investment account’ means a trust  
13 created or organized in the United States for the ex-  
14 clusive benefit of an individual, but only if the writ-  
15 ten governing instrument creating the trust meets  
16 the following requirements:

17           “(A) No contribution will be accepted un-  
18 less it is in cash.

19           “(B) The trustee is a bank (as defined in  
20 section 408(n)) or another person who dem-  
21 onstrates to the satisfaction of the Secretary  
22 that the manner in which that person will ad-  
23 minister the trust will be consistent with the re-  
24 quirements of this section.

1           “(C) No part of the trust assets will be in-  
2           vested in any collectable (as defined in section  
3           408(m)).

4           “(D) The assets of the trust will not be  
5           commingled with other property except in a  
6           common trust fund or common investment  
7           fund.

8           “(2) TIME WHEN CONTRIBUTIONS DEEMED  
9           MADE.—A taxpayer shall be deemed to have made a  
10          contribution on the last day of a taxable year if the  
11          contribution is made on account of such taxable year  
12          and is made not later than the time prescribed by  
13          law for filing the return for such taxable year (not  
14          including extensions thereof).

15          “(c) TAX TREATMENT OF DISTRIBUTIONS.—

16               “(1) IN GENERAL.—Except as otherwise pro-  
17               vided in this subsection, any amount distributed out  
18               of an individual investment account shall be included  
19               in gross income by the distributee unless such  
20               amount is part of a qualified 1st-time homebuyer  
21               distribution.

22               “(2) QUALIFIED 1ST-TIME HOMEBUYER DIS-  
23               TRIBUTION.—For purposes of this subsection—

24                       “(A) IN GENERAL.—The term ‘qualified  
25                       1st-time homebuyer distribution’ means any

1 payment or distribution received by a 1st-time  
2 homebuyer from an individual investment ac-  
3 count to the extent such payment or distribu-  
4 tion is used by the individual within 60 days to  
5 pay qualified acquisition costs with respect to a  
6 principal residence for such individual.

7 “(B) DOLLAR LIMITATION.—The aggre-  
8 gate amount which may be treated as qualified  
9 1st-time homebuyer distributions for all taxable  
10 years shall not exceed \$15,000.

11 “(C) BASIS REDUCTION.—The basis of any  
12 principal residence described in subparagraph  
13 (A) shall be reduced by the amount of any  
14 qualified 1st-time homebuyer distribution.

15 “(D) DEFINITIONS.—For purposes of this  
16 paragraph—

17 “(i) QUALIFIED ACQUISITION  
18 COSTS.—The term ‘qualified acquisition  
19 costs’ means the costs of acquiring, con-  
20 structing, or reconstructing a residence.  
21 Such term includes any usual or reason-  
22 able settlement, financing, or other closing  
23 costs.

24 “(ii) 1ST-TIME HOMEBUYER.—The  
25 term ‘1st-time homebuyer’ means any indi-

vidual if such individual had no present ownership interest in a principal residence during the 3-year period ending on the date of acquisition of the principal residence to which this paragraph applies.

“(iii) PRINCIPAL RESIDENCE.—The term ‘principal residence’ has the same meaning as when used in section 1034.

“(3) TRANSFER OF ACCOUNT INCIDENT TO DIVORCE.—The transfer of an individual’s interest in an individual investment account to his former spouse under a divorce decree or under a written instrument incident to a divorce shall not be considered a taxable transfer made by such individual notwithstanding any other provision of this subtitle, and such interest at the time of the transfer shall be treated as an individual investment account of such spouse and not of such individual. Thereafter such account shall be treated, for purposes of this subtitle, as maintained for the benefit of such spouse.

“(d) TAX TREATMENT OF ACCOUNTS.—

“(1) EXEMPTION FROM TAX.—An individual investment account shall be exempt from taxation under this subtitle unless such account has ceased to be such an account by reason of paragraph (2). Not-

1       withstanding the preceding sentence, any such ac-  
2       count shall be subject to the taxes imposed by sec-  
3       tion 511 (relating to imposition of tax on unrelated  
4       business income of charitable, etc. organizations).

5               “(2) LOSS OF EXEMPTION OF ACCOUNT WHERE  
6       INDIVIDUAL ENGAGES IN PROHIBITED TRANS-  
7       ACTION.—

8               “(A) IN GENERAL.—If, during any taxable  
9       year of the individual for whose benefit the indi-  
10      vidual investment account is established, that  
11      individual engages in any transaction prohibited  
12      by section 4975 with respect to the account, the  
13      account shall cease to be an individual invest-  
14      ment account as of the first day of that taxable  
15      year.

16              “(B) ACCOUNT TREATED AS DISTRIBUTING  
17      ALL ITS ASSETS.—In any case in which any ac-  
18      count ceases to be an individual investment ac-  
19      count by reason of subparagraph (A) on the  
20      first day of any taxable year, paragraph (1) of  
21      subsection (c) shall be applied as if there were  
22      a distribution on such first day in an amount  
23      equal to the fair market value (on such first  
24      day) of all assets in the account (on such first  
25      day).

1           “(3) EFFECT OF PLEDGING ACCOUNT AS SECUR-  
2           RITY.—If, during any taxable year, an individual for  
3           whose benefit an individual investment account is es-  
4           tablished uses the account or any portion thereof as  
5           security for a loan, the portion so used shall be  
6           treated as distributed to that individual.

7           “(4) ROLLOVER CONTRIBUTIONS.—Paragraph  
8           (1) shall not apply to any amount paid or distrib-  
9           uted out of an individual investment account to the  
10          individual for whose benefit the account is main-  
11          tained if such amount is paid into another individual  
12          investment account for the benefit of such individual  
13          not later than the 60th day after the day on which  
14          he receives the payment or distribution.

15          “(e) COST-OF-LIVING ADJUSTMENT.—

16                 “(1) IN GENERAL.—In the case of any taxable  
17                 year beginning in a calendar year after 1992, the  
18                 dollar amount contained in subsection (c)(2)(B)  
19                 shall be increased by an amount equal to—

20                         “(A) such dollar amount, multiplied by

21                         “(B) the cost-of-living adjustment deter-  
22                         mined under section 1(f)(3) for the calendar  
23                         year in which the taxable year begins.

24                 “(2) ROUNDING.—If any dollar amount (as in-  
25                 creased under paragraph (1)) is not a multiple of

1       \$10, such dollar amount shall be increased to near-  
2       est multiple of \$10 (or, if such dollar amount is a  
3       multiple of \$5 and not of \$10, such dollar amount  
4       shall be increased to next higher multiple of \$10).

5       “(f) CUSTODIAL ACCOUNTS.—For purposes of this  
6       section, a custodial account shall be treated as a trust if  
7       the assets of such account are held by a bank (as defined  
8       in section 408(n)) or another person who demonstrates,  
9       to the satisfaction of the Secretary, that the manner in  
10      which he will administer the account will be consistent  
11      with the requirements of this section, and if the custodial  
12      account would, except for the fact that it is not a trust,  
13      constitute an individual investment account described in  
14      subsection (b). For purposes of this title, in the case of  
15      a custodial account treated as a trust by reason of the  
16      preceding sentence, the custodian of such account shall be  
17      treated as the trustee thereof.

18      “(g) REPORTS.—The trustee of an individual invest-  
19      ment account shall make such reports regarding such ac-  
20      count to the Secretary and to the individual for whose ben-  
21      efit the account is maintained with respect to contribu-  
22      tions, distributions, and such other matters as the Sec-  
23      retary may require under regulations. The reports re-  
24      quired by this subsection shall be filed at such time and  
25      in such manner and furnished to such individuals at such



1 time and in such manner as may be required by those reg-  
2 ulations.”

3 (b) DEDUCTION ALLOWED IN ARRIVING AT AD-  
4 JUSTED GROSS INCOME.—Subsection (a) of section 62 of  
5 such Code (defining adjusted gross income) is amended  
6 by inserting after paragraph (15) the following new para-  
7 graph:

8 “(16) INDIVIDUAL INVESTMENT ACCOUNT CON-  
9 TRIBUTIONS.—The deduction allowed by section 220  
10 (relating to individual investment accounts).”

11 (c) INDIVIDUAL INVESTMENT ACCOUNTS EXEMPT  
12 FROM ESTATE TAX.—Part III of subchapter A of chapter  
13 11 of such Code is amended by redesignating section 2046  
14 as section 2047 and by inserting after section 2045 the  
15 following new section:

16 **“SEC. 2046. INDIVIDUAL INVESTMENT ACCOUNTS.**

17 “Notwithstanding any other provision of law, there  
18 shall be excluded from the value of the gross estate of the  
19 value of any individual investment account (as defined in  
20 section 220(b)). Section 1014 shall not apply to such ac-  
21 counts.”

22 (d) NONRECOGNITION OF GAIN ON SALE OF PRIN-  
23 CIPAL RESIDENCE WHERE AMOUNT EQUAL TO OTHER-  
24 WISE TAXABLE GAIN DEPOSITED INTO INDIVIDUAL IN-  
25 VESTMENT ACCOUNT.—Part III of subchapter B of chap-

1 ter 1 of such Code is amended by inserting after section  
2 121 the following new section:

3 **“SEC. 121A. EXCLUSION OF GAIN FROM SALE OF PRINCIPAL**  
4 **RESIDENCE IF REINVESTMENT IN INDIVID-**  
5 **UAL INVESTMENT ACCOUNT.**

6 “(a) GENERAL RULE.—Gross income does not in-  
7 clude gain from the sale or exchange of property if, during  
8 the 5-year period ending on the date of the sale or ex-  
9 change, such property has been owned and used by the  
10 taxpayer as his principal residence for periods aggregating  
11 3 years or more.

12 “(b) LIMITATION.—The amount of gain excluded  
13 from gross income under subsection (a) shall not exceed  
14 the amount paid in cash (during the 1-year period begin-  
15 ning on the date of the sale or exchange) to an individual  
16 investment account (as defined in section 220(b)) estab-  
17 lished for the benefit of the taxpayer or his spouse.

18 “(c) CERTAIN RULES ON OWNERSHIP AND USE TO  
19 APPLY.—Rules similar to the rules of section 121(d) shall  
20 apply for purposes of determining ownership and use  
21 under this section.”

22 (e) TAX ON PROHIBITED TRANSACTIONS.—Section  
23 4975 of such Code (relating to prohibited transactions)  
24 is amended—

1 (1) by adding at the end of subsection (c) the  
2 following new paragraph:

3 “(4) SPECIAL RULE FOR INDIVIDUAL INVEST-  
4 MENT ACCOUNTS.—An individual for whose benefit  
5 an individual investment account is established shall  
6 be exempt from the tax imposed by this section with  
7 respect to any transaction concerning such account  
8 (which would otherwise be taxable under this sec-  
9 tion) if, with respect to such transaction, the ac-  
10 count ceases to be an individual investment account  
11 by reason of the application of section 220(d)(2)(A)  
12 to such account.”; and

13 (2) by inserting “or an individual investment  
14 account described in section 220(b)” in subsection  
15 (e)(1) after “described in section 408(a)”.

16 (f) FAILURE TO PROVIDE REPORTS ON INDIVIDUAL  
17 INVESTMENT ACCOUNTS.—Section 6693 of such Code (re-  
18 lating to failure to provide reports on individual retirement  
19 account or annuities) is amended—

20 (1) by inserting “**OR ON INDIVIDUAL IN-**  
21 **VESTMENT ACCOUNTS**” after “**ANNUITIES**” in  
22 the heading of such section; and

23 (2) by adding at the end of subsection (a) the  
24 following: “The person required by section 220(g) to  
25 file a report regarding an individual investment ac-

1 count at the time and in the manner required by  
2 such section shall pay a penalty of \$50 for each fail-  
3 ure unless it is shown that such failure is due to rea-  
4 sonable cause.”

5 (g) ADJUSTMENT OF BASIS OF RESIDENCE AC-  
6 QUIRED THROUGH USE OF ACCOUNT.—Subsection (a) of  
7 section 1016 of such Code is amended by striking “and”  
8 at the end of paragraph (24), by striking the period at  
9 the end of paragraph (25) and inserting “; and”, and by  
10 adding at the end thereof the following new paragraph:

11 “(26) to the extent provided in section  
12 220(c)(2)(C), in the case of a residence the acquisi-  
13 tion of which was made in whole or in part with  
14 funds from an individual investment account.”

15 (h) CLERICAL AMENDMENTS.—

16 (1) The table of sections for part III of sub-  
17 chapter B of chapter 1 of such Code is amended by  
18 inserting after the item relating to section 121 the  
19 following new item:

“Sec. 121A. Exclusion of gain from sale of principal residence if  
reinvestment in individual investment account.”

20 (2) The table of sections for part VII of sub-  
21 chapter B of chapter 1 of such Code is amended by  
22 striking the item relating to section 220 and insert-  
23 ing the following:

“Sec. 220. Individual investment accounts.  
“Sec. 221. Cross reference.”

1           (3) The table of sections for part III of sub-  
2       chapter A of chapter 11 of such Code is amended by  
3       striking the item relating to section 2046 and insert-  
4       ing the following new items:

          “Sec. 2046. Individual investment accounts.  
          “Sec. 2047. Disclaimers.”

5           (4) The table of sections for subchapter B of  
6       chapter 68 of such Code is amended by striking the  
7       item relating to section 6693 and inserting the fol-  
8       lowing:

          “Sec. 6693. Failure to provide reports on individual retirement  
                                accounts or annuities or on individual investment  
                                accounts.”

9           (i) EFFECTIVE DATE.—The amendments made by  
10      this section shall apply to taxable years beginning after  
11      December 31, 1992.

○